

***United States Court of Appeals  
for the Second Circuit***



**APPELLANT'S  
BRIEF**





# 76-7046

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IN THE  
**United States Court of Appeals**  
FOR THE SECOND CIRCUIT

B

Appeal No. 76-7046

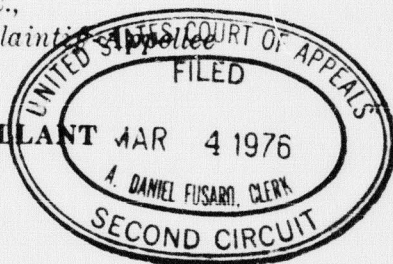
P/S

LEE PHARMACEUTICALS,  
*Defendant-Appellant*  
v.

CERAMCO, INC.,

*Plaintiff-Appellee*

BRIEF FOR APPELLANT



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## TABLE OF CONTENTS

	Page
The Issue Presented .....	1
Statement of the Case .....	1
A. The Undisputed Facts Underlying the Motion Below .....	2
B. The Proceeding Below .....	12
C. The Order Below .....	17
Argument .....	20
I. The Controlling Law Relative to Unclean Hands..	20
II. This Court has Jurisdiction of this Appeal .....	32
Conclusion .....	36

## II

### TABLE OF AUTHORITIES

Cases	Page
<i>American Auto. Assn., Inc. v. Rothman</i> , 101 F. Supp. 193 (E.D.N.Y. 1951) .....	21
<i>American Auto. Assn., Inc. v. Rothman</i> , 104 F. Supp. 655 (E.D.N.Y. 1952) .....	21
<i>Anti-Defamation League v. National Mexican Am Anti-Defamation Committee, Inc.</i> , 510 F.2d 1246 (D.C. Cir. 1975) .....	31
<i>Art Metal Works v. Abraham &amp; Straus</i> , 70 F.2d 641 (2 Cir. 1934) .....	30
<i>Bell &amp; Howell Co. v. Bliss</i> , 262 F. 131 (1919) .....	24
<i>Bertucelli v. Carreras</i> , 467 F.2d 214 (9 Cir. 1972) ..	21
<i>Carmen v. Fox Film Corp.</i> , 269 F. 928 (2 Cir. 1920) .....	24
<i>CES Publishing Corp. v. St. Regis Publications, Inc.</i> , Nos. 75-7269; 75-7276 (2d Cir. Dec. 31, 1975) .....	2, 34
<i>Clark v. Watts</i> , 77 A.2d 188, 10 N.J. Sup. 243 (1950) .....	24, 25
<i>Cohen v. Beneficial Industrial Loan Corp.</i> , 337 U.S. 541 (1949) .....	2, 32, 34, 35
<i>Coca Cola Co. v. Howard Johnson Co.</i> , 386 F. Supp. 330 (N.D. Ga. 1974) .....	29
<i>Donnelly v. Guron</i> , 467 F.2d 290 (2 Cir. 1970) .....	16
<i>Ex parte Peru</i> , 318 U.S. 578 (1943) .....	35
<i>Gaudiosi v. Mellon</i> , 269 F.2d 877 (3 Cir. 1959) ....	29, 30
<i>George Washington Mint, Inc. v. Washington Mint, Inc.</i> , 349 F. Supp. 255 (S.D.N.Y. 1972) .....	31
<i>Hazel-Atlas Co. v. Hartford Empire Co.</i> , 322 U.S. 238 (1944) .....	27
<i>IBM Corp. v. Edelstein</i> , 526 F.2d 37 (2 Cir. 1975) ..	35
<i>International Products Corp. v. Koons</i> , 325 F.2d 403 (2 Cir. 1963) .....	35
<i>Kenner v. Commissioner of Internal Revenue</i> , 387 F.2d 689 (7 Cir. 1968) .....	33
<i>Keystone Driller Co. v. General Excavator Co.</i> , 290 U.S. 240 (1933) .....	27, 28, 30



### III

#### TABLE OF AUTHORITIES—Continued

	Page
<i>Kruh v. General Services Administration</i> , 64 F.R.D. 1 (E.D. N.Y. 1974) .....	16
<i>La Buy v. Howes Leather Co.</i> , 352 U.S. 249 (1957) .....	35
<i>Lefrak v. Arabian American Oil Co.</i> , Nos. 75-7234, 75-7235, 75-7236 (2d Cir. Dec. 12, 1975) .....	21, 33
<i>Martina Theatre Corp. v. Schine Chain Theatres, Inc.</i> , 278 F.2d 798 (2 Cir. 1960) .....	32
<i>Mas v. Coca Cola</i> , 163 F.2d 505 (4 Cir. 1947) .....	16, 25, 27
<i>Meccano v. Wanamaker</i> , 253 U.S. 136 (1920) .....	34
<i>Memphis Keeley Institute v. Leslie E. Keeley Co.</i> , 155 F. 964 (6 Cir. 1907) .....	22, 23
<i>Nichols v. Alker</i> , 126 F. Supp. 679 (E.D. N.Y. 1954) .....	21
<i>Precision Instrument Mfg. Co. v. Automotive Maintenance Machinery Co.</i> , 324 U.S. 806 (1945) .....	27, 28, 30
<i>Primeau v. Granfield</i> , 193 F. 911 (2 Cir. 1911) .....	23
<i>Roche v. Evaporated Milk Assn.</i> , 319 U.S. 21 (1943) .....	35
<i>Root Refining Co. v. Universal Oil Products Co.</i> , 169 F.2d 514 (3 Cir. 1948) .....	26, 27, 33
<i>Safeway Stores, Inc. v. Safeway Properties, Inc.</i> , 307 F.2d 495 (2 Cir. 1962) .....	31
<i>Schlagenhauf v. Holder</i> , 379 U.S. 104 (1964) .....	35
<i>Sutter v. Easterly</i> , 189 S.W. 2d 284, 354 Mo. 282, 162 ALR 437 (1945) .....	24, 25
<i>The Diversey Corp. v. Charles Pfizer and Co., Inc.</i> , 255 F.2d 60 (7 Cir. 1958) .....	25, 26
<i>United States v. International Tel. &amp; Tel. Corp.</i> , 349 F. Supp. 22 (D. Conn. 1972) .....	33
<i>United States v. Weinstein</i> , 452 F.2d 704 (2 Cir. 1971) .....	35
<i>Will v. United States</i> , 389 U.S. 90 (1967) .....	35
<i>Zearfoss v. Zearfoss</i> , 164 A. 2d 893, 112 N.J. Eq. 530 (1933) .....	24, 25

IV

TABLE OF AUTHORITIES—Continued

Other Authorities:	Page
<i>United States Code</i>	
15 U.S.C. 1125(a) .....	2
28 U.S.C. 1291 .....	33
28 U.S.C. 1292(a) .....	34
28 U.S.C. 1651 .....	2, 35
<i>FRCP</i>	
Rule 11 Federal Rules of Civil Procedure .....	17, 21
Rule 56 Federal Rules of Civil Procedures .....	15
Rule 60(b) .....	24
Moore's Federal Practice, Second Ed., Vol. 7 (1975), § 60.37(1) at pp. 608-621 .....	24
Wright & Miller, Federal Practice and Procedure, Vol. 11 (1973), § 2870, pp. 247-257 .....	24
Local Rule 9(g), Eastern District of New York .....	3, 4, 5, 6, 7, 8, 9, 10, 12, 14
New York General Business Law, § 368(d) .....	2

IN THE  
**United States Court of Appeals**  
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Appeal No. 76-7046

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LEE PHARMACEUTICALS,  
*Defendant-Appellant*  
v.

CERAMCO, INC.,  
*Plaintiff-Appellee*

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**BRIEF FOR APPELLANT**

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**THE ISSUE PRESENTED**

May a court of equity entertain on its merits an action based on a perjured sworn complaint?

**STATEMENT OF THE CASE**

This appeal is from the January 6, 1976 "Memorandum of Decision and Order" (A206-208) of Chief Judge Jacob Mishler of the United States District Court for the Eastern District of New York. That order denied the motion under Rule 56 of defendant-appellant Lee Pharmaceuticals to dismiss the sworn complaint with prejudice, and with costs and attorneys' fees to defendant, because it contains representations that are false and were known to be false by plaintiff-appellee Ceramco, Inc., and its counsel, at the time of filing.



No material facts are in dispute. The January 6, 1976 order rests upon the erroneous legal premise that knowing and deliberate false swearing in a complaint is not directly related to the claim for relief, but is relevant, if at all, only to whether plaintiff can prove its case. See, *infra*, Section I hereof, p. 20.

This Court's appellate jurisdiction rests upon its inherent power in equity to direct dismissal of any suit the plaintiff is not entitled to maintain<sup>1</sup>—and particularly those involving fraud upon the court—its power under the collateral order doctrine to adjudicate and finally decide claims extraneous to the merits of a cause of action that “if unresolved, might well taint a trial” and cause needless expenditure of judicial and trial time<sup>2</sup> and the power conferred by 28 U.S.C. 1651 to supervise the administration of the district courts and to direct district judges to act only within the limits of their power.<sup>3</sup> See *infra*, Argument Section II, p. 32.

#### A. The Undisputed Facts Underlying the Motion Below

This action seeking redress (1) under 15 U.S.C. 1125 (a) (Section 43(a) of the Lanham Act), (2) for common law trademark infringement and (3) under Section 368(d) of the New York General Business Law was initiated by Ceramco on April 12, 1975 by the filing of a verified complaint (A38-45) which states on its last page that

<sup>1</sup> See e.g., *CES Publishing Corp. v. St. Regis Publications, Inc.*, Nos. 75-7269 and 75-7276 decided by this Court December 31, 1975, slip op. at 1396-7 and cases cited, see also cases cited *infra* in Section I.

<sup>2</sup> See, e.g., *Cohen v. Beneficial Industrial Loan Corp.*, 337 U.S. 541 (1949); *Lefrak v. Arabian American Oil Co.*, Nos. 75-7234, 75-7235, 75-7236, decided by this Court December 12, 1975, slip op. at 1042.

<sup>3</sup> See, e.g., the cases cited at p. 35, *infra*.

"H. GORDEN [sic] PELTON, being duly sworn, deposes and says:

"I am President and Chief Executive Officer of Ceramco, Inc. the plaintiff herein. I have read the foregoing verified complaint and know the contents thereof to be true except for matters stated on information and belief and as to those matters I believe it to be true. The reason why this verification is made by deponent and not by the plaintiff herein is because the plaintiff is a corporation and I am an officer thereof.

/s/ H. Gorden [sic] Pelton" (A45).

See Lee's Local Rule 9(g) statements 1 and 1.1 (A22) "admitted" by Ceramco (A136).

Concurrently, plaintiff filed an "Affidavit in Support of Order to Show Cause" verified by the same H. Gordon Pelton (A46-50)<sup>4</sup> and moved for a preliminary injunction.

Both the complaint and the affidavit were verified before Thomas W. Towell, a notary public who was one of plaintiff's counsel as of the April 11, 1974 verification date and who also participated in drafting both documents (A68-72).<sup>5</sup> See also defendant's Local Rule

<sup>4</sup> The authenticity of this document is established by Ceramco's admission (A137) of Lee's Local Rule 9(g) statement 2 (A23).

<sup>5</sup> Mr. Dobbins, at all relevant times one of plaintiff's counsel and at that time Mr. Towell's superior, stated on the record of the Pelton deposition on July 2, 1974 that

"MR. DOBBINS: I instructed Mr. Towell to confer with Mr. Ryan and with Mr. Pelton, and that Mr. Towell, in fact, drafted the complaint and Mr. Pelton's affidavit, based upon his investigation of the facts, and that—I have to check my diaries, but I'm fairly certain that I looked over the complaint and the affidavit prior to its being submitted to Mr. Pelton." (Pelton Dep., p. 115, 1. 10-p. 116, 1. 3).

See defendant's Local Rule 9(g) statement 3.1 (A23) "admitted" by plaintiff (A137-8).

[Footnote continued on page 4]



9(g) statements 1.1.2 (A22) and 2.1 (A23) which plaintiff "admitted" (A136-137).

Both the sworn complaint and the affidavit were expressly relied upon as setting forth "[t]he facts in support of the [preliminary injunction] motion" concurrently filed (A217). The "Order to Show Cause" (A 216) entered *ex parte* on April 12, 1974 by Judge John F. Dooling, Jr. states that it was granted in reliance "[u]pon the annexed affidavit of H. Gordon Pelton, sworn to the 11th day of April, 1974 and upon the summons and verified complaint".

The following fact representations contained in the verified complaint and affidavit concurrently filed are *false*, as established by subsequent deposition testimony and interrogatory answers given on behalf of Ceramco:

*Misrepresentation 1*—In Paragraph 12 of the verified complaint that:

"Defendant's use of plaintiff's trademark GENIE has caused . . . confusion . . . in the dental trade. . . ." (A40)<sup>5</sup>

and the further representation of H. Gordon Pelton on the last page of the same document that "I . . . know the contents thereof [including the quoted portion of Paragraph 12] to be true." (A45).

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<sup>5</sup> [Continued]

Plaintiff's attempted denial (A137), *without citation of counter evidence*, of Lee's Local Rule 9(g) Fact 3 (A23) stating in substance that the verified complaint and the Pelton affidavit were prepared by Mr. Towell, is spurious. See A188 where defendant so demonstrated to the district court.

<sup>6</sup> Par. 12 is reproduced in Lee's Local Rule 9(g) Fact 4 (A23) which was "admitted" by plaintiff (A138). See also the similar sworn representation in Mr. Pelton's affidavit in support of order to show cause (A49) which is quoted in defendant's Local Rule 9(g) Fact 4.3 (A24). Ceramco "admitted" (A139) Fact 4.3.

*The record shows there had been no confusion, and that Mr. Pelton knew it.*

(a) Ceramco's sworn answer to Lee's Interrogatory 47(f) verified July 8, 1974<sup>7</sup> acknowledged the *absence* of evidence of actual confusion up to July 8, 1974, almost three months *subsequent* to the filing of the complaint.

(b) Mr. Pelton swore, in deposition testimony given contemporaneously to this answer on July 2, 1974, that he had never "heard any report, either personally or through some kind of hearsay, that any customer . . . had confused Gold Genie or Ceramic Metal Genie [Ceramco's products on which the suit is premised] with Lee's Genie product" (A 24).<sup>8</sup>

*Misrepresentation 2*—In Paragraph 15 of the verified complaint that:

" . . . defendant has deliberately and knowingly applied and continues to apply false and misleading markings, descriptions, and designations of origin to goods sold in interstate commerce, namely, the mark GENIE and to use this mark, description and designation with the intent to obtain an unfair share of plaintiff's business and market in the United States, to produce confusion in the public mind and to misappropriate plaintiff's trademark GENIE to its own use and benefit. . . . This intentional

<sup>7</sup> The answer appears in defendant's Local Rule 9(g) Fact 4.3 (A24-25), a fact "admitted" by plaintiff (A139). The interrogatory answer is also a part of Docket Entry ("D.E.") 91 (A7) in the record of this case.

<sup>8</sup> The entirety of the pertinent Pelton testimony excerpt is quoted in Lee's Local Rule 9(g) Fact 4.2 (A24) which Ceramco "admitted as substantially correct" (A139). The totality of the Pelton deposition is a part of the record under D.E. Nos. 147, 148 and 151 (A12).

and unlawful diversion of business . . . has damaged . . . plaintiff's reputation and goodwill. . . ." (A41)<sup>9</sup>

and the further representation of H. Gordon Felton on the last page that "I . . . know the contents thereof [including the quoted portion of Par. 15] to be true" (A45).

*The record shows no damage and contains no evidence of misappropriation or intentional diversion of business, but shows good faith adoption of the mark by Lee. Mr. Pelton has at no time had any inconsistent evidence or information.*

(a) Ceramco's "withdrawal" of its prayer for money damages initially attempted in a July 15, 1974 affidavit of its counsel (D.E. 99; A8) is a matter of record in this Court in No. 75-3068 where the apposite portion of counsel's affidavit has been reproduced in the Court's opinion (slip op. at 1021). This withdrawal was based on an acknowledgement that no damage had occurred.

(b) On July 3, 1974 Mr. Pelton testified under oath (i) that he had, up to the April 12, 1974 date the complaint was filed, acquired *no information* "that Lee Pharmaceuticals had ever heard of the [alleged Ceramco] products Gold Genie, Ceramic Metal Genie, or Fiber Metal Genie or CM Genie . . ." prior to its receipt from plaintiff's counsel Ryan of a letter dated January 16, 1974<sup>10</sup> (A26) and (ii) that when he executed the verified com-

<sup>9</sup> The full text of Par. 15 of the verified complaint is reproduced in Lee's Local Rule 9(g) Fact 15 (A25) which plaintiff "admitted" (A 141).

<sup>10</sup> January 16, 1974 is of course many months after Lee's claimed May 23, 1973 date of first use in interstate commerce referred to in Par. 10 of the verified complaint (A40).



plaint "I had no information as to his [sic Lee's] intent" (A27).<sup>11</sup>

(c) The Pelton deposition testimony is *consistent with* the May 28, 1974 affidavit of plaintiff's president, Henry L. Lee, Jr. (A51-55) that "[t]he adoption of the mark 'GENIE' for the product in question was made innocently and in good faith" (A51) and that the verified complaint and affidavit in support of order to show cause are "not correct" in various specified respects (A53-54).<sup>12</sup>

*Misrepresentation 3*—In Paragraph 11 of the verified complaint: "Upon information and belief, defendant's adoption and use of the trademark GENIE was with full knowledge of plaintiff's use of the trademark GENIE . . . and defendant's aforesaid acts have been committed with the intent of misleading purchasers and with the purpose of ap-

<sup>11</sup> Mr. Pelton's testimony, in context, appears in Lee's Local Rule 9(g) Facts 5.2 and 5.3 (A26-27) both of which Ceramco "admitted" (A142-143).

<sup>12</sup> The apposite portion of the Lee affidavit, authenticity of which Ceramco "admitted" (A143) in response to Lee's Local Rule 9(g) Fact 5.4 (A27) is correctly reproduced in Lee's Local Rule 9(g) Fact 5.4.1 (A27-30), as Ceramco also "admitted" (A146). Ceramco further "admitted" that its counsel did not interrogate Dr. Lee at his deposition on any of the quoted paragraphs even though he *was* interrogated by such counsel concerning a different portion of his affidavit; see Lee's Local Rule 9(g) Fact 5.4.2 (A30) and Ceramco's response (A147). Exhibit D to Lee's motion (A56-59), as Ceramco acknowledged, contains all of its counsel's interrogation of Henry L. Lee, Jr. on his own affidavit. See Lee's Local Rule 9(g) Fact 5.4.3 (A30-31) and Ceramco's response (A147).

Exhibit E to defendant's motion in the court below (A60-66) which Ceramco admitted (A147) in response to Lee's Local Rule 9(g) statement 5.4.3.1 (A31) to be an authentic copy of a portion of Pelton's deposition, contains examination by Lee's counsel concerning the averments of the Lee affidavit. As Ceramco admits, its counsel did not cross-examine Mr. Pelton as to his testimony contained in Exhibit E. See Ceramco's response (A147) to Lee's Local Rule 9(g) Fact 5.4.3.2 (A31).

propriating to itself the good will developed by plaintiff in the dental product field" (A40),<sup>13</sup> and the further representation by H. Gordon Pelton on the final page of the same pleading that as to "matters stated on information and belief . . . I believe it to be true" (A45).

*The record shows Lee did not know of plaintiff's use of the mark and that Mr. Pelton had no information that could justify the belief to which he swore.*

(a) Mr. Pelton had no information, either that Lee knew of "plaintiff's use of the trademark GENIE,"<sup>14</sup> or as to Lee's intent.<sup>15</sup> See Misrepresentation 2, *supra*, pp. 5-7.

<sup>13</sup> The entirety of Paragraph 11 of the verified complaint is reproduced in Lee's Local Rule 9(g) Fact 6 (A32) which Ceramco "admitted" (A149).

<sup>14</sup> There was in any event no use of the name GENIE alone by plaintiff at any time. See Misrepresentation 4, *infra*, pp. 9-10. Likewise plaintiff's association, if any, with the name GENIE commenced *well after* Lee's claimed May 23, 1973 entry into the field to which reference is made in Paragraph 10 of the verified complaint (A40). See Misrepresentation 5, *infra*, pp. 10-12. The verified complaint concealed these facts.

<sup>15</sup> Ceramco "admitted as substantially correct" (A150) Lee's Local Rule 9(g) statement 6.2.3 which states

"Specifically, H. Gordon Pelton testified in his deposition taken in this case, on July 3, 1974 'when you ask me what information did I have as to Lee's intent, the information is I had no information as to Lee's intent.' See Fact 5.3" (A33).

Ceramco nevertheless purportedly "denied" (A149) Lee's Local Rule 9(g) Fact 6.1.1 (A32) to the effect that when he verified the complaint Mr. Pelton had no basis for his statement that he then believed Paragraph 11 of the complaint "to be true" and also denied (A149) Local Rule 9(g) statement 6.2.2 (A32-33) which states in substance that Mr. Pelton had no knowledge of defendant's intent or of any fact that would support a belief that Lee adopted the trademark Genie with full knowledge of plaintiff's use of the trademark Genie. These attempted denials are spurious as Lee demonstrated in its reply memorandum below (A177-178).

(b) Lee's adoption of the mark "was made innocently and in good faith" (A51). See Misrepresentation 2, *supra*, pp. 5-7.

*Misrepresentation 4*—In Paragraph 7 that: "The corrective composition has been continually used and sold in interstate commerce under the trademark GENIE, alone . . . since 1968" (A39); in Par. 9 of "continuous use and advertising of the trademark GENIE, alone. . ." <sup>16</sup> (A9) and the further representation by H. Gordon Pelton that "I . . . know the contents thereof [including the quoted portions of Pars. 7 and 9] to be true. . ." (A45).

*The record shows that plaintiff, its predecessors and its parent corporation have never used "GENIE" alone as a trademark for any product and that Mr. Pelton had no contrary knowledge.*

(a) On July 2, 1974 Mr. Pelton testified that Ceramco's alleged predecessors Culver Laboratories, Inc. and Wilkinson Co. had "not that I know of" used the word Genie alone "as an identifying name for any product" and that Ceramco likewise had not done so. (A179, n. 9).<sup>17</sup>

(b) On July 12, 1974 Mr. Sleininger, Ceramco's vice president in charge of sales testified that "The [dental] laboratories frequently refer to any of these products by simply the name Genie, but I never saw anything in print that just said Genie" (A180-181, n. 10).<sup>18</sup>

<sup>16</sup> See Lee's Local Rule 9(g) Fact 7 (A33) which Ceramco "admitted as substantially correct" (A150).

<sup>17</sup> The totality of Mr. Pelton's July 2, 1974 testimony is a part of the record under D.E. 147.

<sup>18</sup> The Sleininger deposition testimony in its entirety is a part of the record under D.E. 152.



(c) Testimony of Ceramco/Johnson & Johnson house counsel Michael F. Ryan, Jr. given November 24, 1975 is that he interviewed Culver before the complaint was filed and did not learn from Culver of any use of Genie alone by either Culver or Wilkinson (A122).

(d) Ceramco's answer to defendant's Interrogatory 4(b), inquiring if Ceramco has "since April 1973 utilized the name 'Genie' alone to identify any product sold by it", is a flat "No" (A151).<sup>19</sup>

(e) Even plaintiff's brief below confesses "that none of plaintiff's packaging carrying the name of products uses the work [sic word] GENIE alone" (A161)—hence, necessarily that Genie alone has not been used as a trademark. See *e.g.*, 37 C.F.R. 2.21 and 2.56-2.58.

*Misrepresentation 5*—In Paragraph 9 of the complaint that:

"Through the continuous use and advertising of the trademark GENIE, alone or in combination, the mark has come to identify and is understood to identify, throughout the United States, plaintiff's product only and the word GENIE constitutes a trademark and marketing concept by which the goods of plaintiff are distinguished from other goods in the dental field.

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<sup>19</sup> See Lee's Local Rule 9(g) statement 7.2.1 (A33-A34), Ceramco's response (A151) and the pertinent discussion in defendant's reply memorandum below appearing at A178-179. Plaintiff's answers to defendant's interrogatories 1-14 were apparently not filed in the court below until October 14, 1975 though served in June 1974. They appear in the record under D.E. 168.

Mr. Ryan's testimony given November 24, 1975 confirms the answer to Interrogatory 4(b). He stated that "to the best of my knowledge" neither Ceramco nor Johnson & Johnson has used the word Genie alone as a trademark on any product sold in the United States (A110).

As a result, said trademark . . . has become an exceedingly valuable and well-known symbol of plaintiff's goodwill" (A39-40).

coupled with the representation of H. Gordon Pelton on the last page of the pleading that

"I . . . know the contents thereof [including the quoted portion of Par. 9] to be true" (A45).

*The record shows that plaintiff's trade identification, if any, with the name "Genie" or any variant thereof, did not arise until October 1973 at the earliest, which is after defendant had commenced use of "Genie" alone as a trademark and hence, that the pleaded exclusivity of identification could not have existed,<sup>20</sup> as Mr. Pelton must have known.*

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<sup>20</sup> In its memorandum in support of its motion for preliminary injunction concurrently filed, plaintiff, admittedly relying upon the allegations of the verified complaint and the affidavit of Gordon Pelton (A217), went even further and stated

"There is no question but that plaintiff (and its predecessors in rights) has established prior use of the mark. It has used the fanciful mark GENIE in the dental product field for years and has developed it extensively. Plaintiff has become identified as the source of GENIE products and of the 'Genie-line'. Defendant, on the other hand, has only recently started to use the mark on a closely related product in the dental field." (A222)

*If plaintiff's complaint had revealed the true fact, i.e. that its own use of a variant of "GENIE" as a trademark did not commence until October 1973—after plaintiff had already entered the field with its "GENIE" mark—Ceramco could not have represented as it did that "It [i.e., not in combination with predecessors, but alone] has used the fanciful mark GENIE in the dental products field for years. . . ." or that "plaintiff [i.e., not in combination with predecessors but alone] has become identified as the source of GENIE products. . . ." nor could it have conveyed the impression, as the quoted paragraph of the memorandum does, that defendant Lee was a latecomer vis-a-vis Ceramco itself in the use of a trademark including the word "GENIE" in the dental products field.*

Even this Court has been misled by plaintiff's misrepresentations on this point, as shown by the statement in its December 10, 1975



(a) On July 10, 1974 on the record of the deposition of H. Gordon Pelton, plaintiff's counsel stipulated that Ceramco has no knowledge of anyone outside its own organization, that of its parent and that of its predecessors who associated the name "Genie" alone, "Gold Genie", "Ceramic Metal Genie" or "Fiber Metal Genie" with plaintiff at any time before October 1973.<sup>21</sup>

(b) Paragraph 10 of the verified complaint (A 40) acknowledges that defendant's application to register "Genie" as a trademark for orthodontic bracket adhesives stated a date of first use of May 23, 1973—by simple arithmetic some five months *before* any member of the public could have commenced to associate any variant of the name "Genie" with any goods of plaintiff.

### B. The Proceeding Below

Defendant early recognized that the sworn complaint and the Pelton affidavit contained inaccurate fact statements which the affiant Pelton knew or should have known to be false. See in this regard the May 28, 1974 affidavit of plaintiff's president, Henry L. Lee, Jr. Defendant accordingly included in its June 17, 1974

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decision in No. 75-3068 that "Since 1967, Ceramco has been using the above trademarks [*i.e.*, "GENIE used alone or in combination"] in connection with a 'Corrective Composition' used to fill up holes in ceramic gold alloys" (Slip op. at 1020).

<sup>21</sup> Lee's Local Rule 9(g) statement 8.1 (A34-35) which defendant "admitted" (A153) quotes the portion of the deposition transcript that sets forth the stipulation. Mr. Ryan in his November 24, 1975 testimony confirmed that Ceramco's promotion and sale of a product under a name including the word "Genie" commenced in October 1973 (A122-123, especially at 123).

Answer and Counterclaim an affirmative defense to that effect.<sup>22</sup>

Subsequently, during June and July 1974 plaintiff's interrogatory answers and deposition testimony given by Mr. Pelton and other Ceramco personnel confirmed that the sworn complaint and the concurrently executed Pelton affidavit contain *at least* the misrepresentations noted above.

Defendant endeavored, contemporaneously with the Pelton and other Ceramco employee depositions, to take the depositions of plaintiff's lawyers, Mr. Thomas Towell, drafter of the offending documents, and Mr. Michael Ryan, house counsel in the employ of Ceramco's parent company, Johnson & Johnson whom Mr. Towell was instructed by Mr. Dobbins to "consult" about the facts to be included in them.<sup>23</sup> On July 1, 1974, however, the district court orally granted Ceramco's motion for a blanket protective order (D.E. 59; A5) to the limited extent of immunizing all Ceramco lawyers from testifying. A timely motion for reconsideration was filed July 5, 1974 (D.E. 80-81; A6) but was not acted upon by

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<sup>22</sup> Specifically in Paragraph 29(a) of the Answer and Counterclaim (D.E. 50) which states:

"29. Plaintiff, Ceramco, Inc., comes before the Court with unclean hands and is therefore barred from relief in equity, including without limitation, from any and all preliminary or permanent injunctive relief of any kind; said unclean hands being consequent from the following acts, among others:

"(a) The filing and reliance by the plaintiff upon the verified complaint in this action which includes sworn allegations that are false or which deceptively state less than the whole truth all as known, at the time the complaint was verified, filed and served, to plaintiff Ceramco, Inc., its chief executive, H. Gordon Pelton, who verified the complaint, its counsel and its corporate parent Johnson & Johnson, Inc."

<sup>23</sup> The original deposition notices are in the record as D.E. 43 and 45, each filed June 12, 1974 (A4). They were amended as to dates in D.E. 52, filed June 21, 1974.

the district court until November 7, 1975, whereupon it was granted (D.E. 193; A17).

The Ryan and Towell depositions proceeded on November 24, 1975. Both deponents were afforded opportunity to offer an explanation of the discrepancies between the actual facts and those to which Mr. Pelton made oath in the verified complaint and in his affidavit, and were fairly placed on notice that defendant viewed the offending documents as tainted with perjury suborned by these lawyer-witnesses. See Towell deposition A69-82, A84-86; Ryan deposition A88, A90-105, A110, A113-116, A119-129. As the cited testimony shows (a) both lawyers refused to answer questions directed toward the discrepancies and the state of their own relevant knowledge as of the time the offending documents were drafted and (b) to the extent either did testify about the relevant facts, their testimony confirms the existence of at least the factual misrepresentations detailed in Section A hereof, *supra*.

Defendant's notice of motion for summary judgment of dismissal (A21) was filed on November 26, 1975 promptly after the Ryan and Towell depositions were concluded. It was accompanied by a statement under Local Rule 9(g) (A22-37) with exhibits (A38-131) and a supporting memorandum (A132-135). The thrust of Lee's legal position was that the complaint should be dismissed because of its infection with plaintiff's misconduct, including the various perjured statements. On December 4, 1975 plaintiff filed its opposition to defendant's Local Rule 9(g) statement (A136-156) admitting many of the facts therein stated and purporting to deny certain others, but failing to advance *any* counter evidence to support the attempted denials. On December 5, 1975 at the oral hearing (A163-168) held that day, plaintiff served an opposing memorandum of law (A157-162). Also at the hearing, defendant's counsel



was afforded until Monday, December 8 to file its reply memorandum (A166). No oral argument on the merits of the motion ensued.

Plaintiff's memorandum served at the December 5, 1975 hearing significantly acknowledged that

"Most of the statements in defendant's lengthy and prolix statement pursuant to local Rule 9(g) have been admitted by Ceramco inasmuch as they are statements made of record in this action. Ceramco denies the conclusions, based upon these admitted facts, which Lee's counsel draws from those admitted facts in order to give some semblance of reality to their claims." (A157)

Plaintiff's legal position as expressed in the same memorandum is that

"... The cases cited by Lee will only support the relief requested if the subject matter as to which it is claimed unclean hands exist is the same subject matter as the suit in question. Here, Lee claims that Ceramco's president swore falsely in a verification and an affidavit. Even if true, that fact would have nothing to do with the validity of Ceramco's trademark infringement action involving two dental products known as GENIE". (A162)

Plaintiff cited no authority to support this thesis, but asked that "If there should be any doubt in the mind of the Court as to this limitation on the equitable doctrine cited by defendant, plaintiff requests additional time to supply the Court with further legal authorities" (A 162).

In its reply memorandum served December 8, 1975 defendant called attention to the case law which holds that denial under Rule 56 of facts supported by competent evidence must be accompanied by citation to competent counter evidence in admissible form, or else the

denial is to no avail and the facts asserted are deemed admitted (A171-173).<sup>24</sup> Defendant further demonstrated by analysis of plaintiff's papers and the record that there is no genuine dispute of material fact (A173-186; A188-191) and called attention to the teaching of *Mas v. Coca Cola*, 163 F.2d 505, 508 (4 Cir. 1947) that

"... It is sufficient to bar relief that plaintiff has been guilty of unconscionable conduct directly related to the cause of action, such as the fabrication of testimony, the subornation of perjury or other like attempts to perpetrate a fraud upon the court or take an unconscionable advantage of his adversary." (A187)

Defendant, believing its motion to be under submission with the filing of its reply memorandum urged the district court in a letter of its counsel dated December 13, 1975 (A192-194) to promptly resolve the motion on its merits. By letter dated December 12, postmarked December 16 and received on December 18, 1975, however, Chief Judge Mishler retreated from his oral order of December 5, 1975 that "All papers on motion for summary judgment [are] to be submitted by Monday afternoon [December 8, 1975]" (A167-168). The letter stated;

"The Motion for Summary Judgment will appear on the court's calendar on Friday, December 19, 1975. All papers are to be filed on or before that date.

The court will NOT permit oral argument. The motion will be marked and submitted." (A195)

As indicated in the December 18, 1975 letter from defendant's counsel De Marco to the court (A196), upon

<sup>24</sup> In particular, defendant called attention to *Donnelly v. Guron*, 467 F.2d 290, 293 (2 Cir. 1970) and *Kruh v. General Services Administration*, 64 F.R.D. 1 (E.D.N.Y. 1974).

being advised of the content of the court's letter defendant's counsel Miss Sears telephoned Judge Mishler's chambers and spoke with his secretary to ascertain the premise upon which further papers were inconsistently being permitted. She was told that contrary to the December 5, 1975 oral order, plaintiff's counsel Rogers & Wells would be permitted to file another paper on or before December 19. In view of that, Miss Sears sought and obtained leave to respond to any Rogers & Wells paper on or before December 26, 1975.

Plaintiff's counsel did in fact file a supplemental memorandum (A197-198) on or about December 19, 1975. Defendant's reply (A199-205) was filed on December 24, 1975.

Plaintiff's supplemental memorandum cites no authority to support its main point—*i.e.* that there is "no nexus . . . to tie the conduct alleged to the subject matter of this action" (A198), but does indulge in a self-serving and factually inaccurate labelling of the grounds of decision in various cases earlier cited by defendant (A198).

In its reply, defendant again stressed the admitted falsity of the verified complaint and called attention to the authorities which require dismissal of even an unverified complaint shown to have been filed in bad faith without the "good ground to support it" which Rule 11 requires, plus others that require a plaintiff to come into equity with clean hands and keep them clean, thereby avoiding the besmirching of the court's integrity that is implicit in asking it to abet misconduct. (A199-205).

### C. The Order Below

The "Memorandum of Decision and Order" entered by Chief Judge Mishler on January 6, 1976 (A206-208) appears to acknowledge the absence of disputed issues of material fact.



Thus, it selects as typical of defendant's arguments the "argument with reference to Paragraph 12" and asserts that "Defendant's statement of material facts under Local Rule 9(g) shows that the complaint was verified by H. Gordon Pelton, president and chief executive official of Ceramco. . . . Mr. Pelton testified that he had never received any reports that Lee was marketing a Genie product, and had never heard that any customer had confused Gold Genie or Ceramic Metal Genie with Lee's Genie product" (A206).

Refusal of defendant's motion is solely on the grounds that

"Defendant is really charging plaintiff with being unable to prove all the allegations of the complaint in the manner alleged. But failure to prove actual confusion of purchasers, though alleged, will not defeat plaintiff's claim. The test is rather the likelihood of confusion, *Anti-Defamation League of B'nai B'rith v. National Mexican Am. Anti-Defamation Committee, Inc.*, 510 F.2d 1246 (D.C. Cir. 1975); *Safeway Stores, Inc. v. Safeway Properties, Inc.*, 307 F.2d 495 (2d Cir. 1962); *Geo. Washington Mint, Inc. v. Washington Mint, Inc.*, 349 F.Supp. 255 (S.D.N.Y. 1972).

"The doctrine that denies relief to a plaintiff who comes into equity with unclean hands applies to the type of 'inequitableness or bad faith relative to the matter in which he seeks relief. . . .' *Precision Instrument Manufacturing Co. v. Automotive Maintenance Machinery Co.*, 324 U.S. 806, 814, 65 S.Ct. 993, 997 (1945); *Keystone Driller Co. v. General Excavator Co.*, 290 U.S. 240, 245, 54 S.Ct. 146 (1933); *Carmen v. Fox Film Corp.*, 269 F. 928 (2d Cir. 1920), cert. denied, 255 U.S. 569, 41 S.Ct. 323 (1947); *Washington Capitols Basketball Club, Inc. v. Barry*, 304 F.Supp. 1193 (D.C. Cal. 1969), aff'd., 419 F.2d 472 (9th Cir. 1969).

"Thus, showing that plaintiff shrimped out of season will not bar him from prosecuting a claim to declare a shrimp fishing statute unconstitutional, *Toomer v. Watsell*, 334 U.S. 385, 68 S.Ct. 1156 (1948); alleged irregularities committed after merger will not defeat plaintiff's claim for rescission of merger agreement, *Meis v. Sanites Service Corp.*, 511 F.2d 655 (5th Cir. 1975). In a trademark and unfair competition claim a defense of "unclean hands" cannot be sustained unless there is

'... some logical connection between the right plaintiff asserts and the activity constituting unclean hands.

....

The longstanding rule in equity is that there must be an immediate and necessary relationship between the relief the plaintiff seeks and the conduct giving rise to the "unclean hands." *Keystone Driller Co. v. General Excavator Co.*, 290 U.S. 240, 245, 54 S.Ct. 146, 78 L.Ed. 293 (1933).

*Coca-Cola Co. v. Howard Johnson Co.*, 386 F.Supp. 330, 337 (N.D. Ga. 1974).

Ownership of the tradename Genie in dental products, and infringement, remain issues in the case. They remain despite defendant's syllogism." (footnote omitted)

On January 12, 1976 defendant noticed its motion to reconsider the district judge's memorandum and order (A209), pointing out *inter alia*, its inconsistency with the very case law on which it purports to rest (A210-214).

Subsequently, defendant's counsel reached the conclusion that such order is appealable and accordingly withdrew its motion for reconsideration (A215) and simultaneously filed a notice of appeal (A215).



## ARGUMENT

This decision below rests upon fundamentally erroneous legal premises and is unsupported, even by the precedent upon which it purports to rely.

It should be reversed summarily, with directions to dismiss the plaintiff's perjurious complaint.

**I. The Controlling Law Relative to Unclean Hands**

The district court "memorandum of decision and order" misconstrues the controlling law to conclude that deliberate perjury in a verified complaint is not immediately and necessarily related to the relief sought by the complaint (207-208), and particularly not if the perjured statements involve a legally immaterial point (A206-207).<sup>25</sup> Thus, the district court found that "[d]efendant's argument with reference to paragraph 12 of the complaint typifies defendant's arguments in support of its motion" (A206). It then reasoned that the deliberately false sworn statement in Paragraph 12 that defendant Lee's "use of plaintiff's trademark *Genie* has caused . . . confusion" (A206) is *not necessarily* related directly to plaintiff's claim, because "failure to prove actual confusion of purchasers . . . will not defeat plaintiff's claim. The test is rather the likelihood of confusion. . . ." (A207).<sup>26</sup>

The error is perhaps traceable to the district judge's total misapprehension of the motion's gravamen. Thus, the opinion states "Defendant is really charging plaintiff

<sup>25</sup> As demonstrated, *infra*, pp. 30-32 the district court's conclusion of legal immateriality is not justified.

<sup>26</sup> The court below did not address itself to other instances of plaintiff's perjury raised in the motion, but presumably would have similarly excused each of them on the mistaken premise that even though the proofs are contrary on each such point, plaintiff *could* still conceivably win its case on "ownership of the trade-name *Genie* in dental products and infringement. . ." (A208)—and hence should be given a chance to do so.

with being unable to prove all the allegations of the complaint in the manner alleged" (A206).<sup>27</sup> In fact, defendant's motion below is *not at all concerned with* whether plaintiff can ultimately prove all the allegations of the complaint, or any of them, but relates *solely* to the fact that the complaint contains deliberate falsehoods obviously advanced in an effort to commit a fraud upon the defendant and the court and to gain unfair advantage in the litigation. Thus, for example, *even if*

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<sup>27</sup> Significantly, plaintiff had other options than the filing of a perjured sworn complaint. It could have filed a truthful verified complaint from which the misrepresentations noted in Fact Section A, *supra* pp. 4 to 12 were omitted. It could also have filed a truthful unsworn complaint, there being no statute or rule compelling verification of the complaint, or abstained from filing any complaint.

Obviously plaintiff chose to verify the complaint so as to render it "evidence" in support of (1) the immediate *ex parte* show cause order sought even before the complaint and summons were served, and (2) the preliminary injunction motion *per se*. Equally obviously, plaintiff deemed that its case for an *ex parte* show cause order and a precipitate preliminary injunction hearing was enhanced by the sworn factual misrepresentations that the complaint includes.

In the premises the fact that a truthful complaint *could* have been so framed as to state a cognizable claim for relief (albeit *not* a dramatically compelling claim for *immediate* relief) cannot be availed of to exculpate Ceramco and its counsel—as the district court did—by treating the false sworn statements as mere surplusage. Rather the whole sequence of events, including the undisputable fact that plaintiff had other options, must be viewed for what it plainly was—an attempt through perjury suborned by counsel to pervert the processes of the court and secure to the plaintiff an unfair advantage to which it was disentitled.

Significantly, moreover, *even if* Ceramco had chosen not to file a sworn complaint but had included the same misrepresentations of fact in an ordinary *unverified* complaint that complaint would be dismissible under Rule 11, as filed without good ground to support it. See *American Auto. Assn., Inc. v. Rothman*, 101 F.Supp. 193, 195-196 (E.D.N.Y. 1951); *American Auto. Assn., Inc. v. Rothman*, 104 F.Supp. 655, 656 (E.D.N.Y. 1952); *Nichols v. Alker*, 126 F.Supp. 679, 684 (E.D.N.Y. 1954) and *Bertucelli v. Carreras*, 467 F.2d 214, 215 (9 Cir. 1972) which were cited to the district court (A201-202) but ignored there.

*plaintiff could now, on the basis of occurrences since the filing of the complaint, prove actual confusion in the trade, this would not change the fact that the verified complaint is deliberately perjurious in representing that such confusion had taken place before the complaint was filed when plaintiff and its counsel knew better—and doing so, as the record shows, to gain unfair advantage in this litigation.*<sup>28</sup> In short, the motion below has nothing to do with what plaintiff might ultimately prove on the merits—a point defendant did not address in the motion or its supporting papers—but relates solely to the single issue now raised in this Court, *viz.*, whether an action initiated by a deliberately perjured sworn complaint, constituting the sole predicate for relief to the plaintiff, can be maintained at all.

The case law compels a negative answer to *that question*—and with good reason, since any contrary approach would afford encouragement and incentive to perjury, to the paramount detriment of the courts and the public.

Importantly, the question of a plaintiff's disentitlement to relief because of its unclean hands resulting from fraud or illegality with respect to the subject matter of the action need not even be pleaded as a defense but is cognizable in a court of equity as a matter of public policy. As said in *Memphis Keeley Institute v. Leslie E. Keeley Co.*, 155 F. 964, 974 (6 Cir. 1907)

"... It seems to be well settled that such a matter need not be pleaded as a defense to the suit. If it appears from the record, it will be given effect notwithstanding it has not been pleaded. The theory upon which this is done is that in reality it is not a matter of defense. It is given effect to, not on

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<sup>28</sup> To wit, to induce the grant of an *ex parte* show cause order, in which plaintiff was successful, see p. 4, *supra* and the subsequent grant of an immediate preliminary injunction, *supra*, p. 4 in which plaintiff was *not* successful.



defendant's account, but because of the public. As said by the Supreme Court of Tennessee in the case of *Simmons Med. Co. v. Drug Co.*, 93 Tenn. 99, 23 S.W. 169:

‘It is not strictly speaking a defense at all, but rather an interposition by the court to discourage fraud and wrong upon the public.’

“The following decisions lend support to and uphold this doctrine: *Fetridge v. Wells*, 13 How. Prac. (N.Y.) 385; *Cardoze v. Swift*, 113 Mass. 250; *Dunham v. Presby*, 120 Mass. 285; *Connell v. Reed*, 128 Mass. 477, 35 Am. Rep. 397; *Teoli v. Nordrill*, 23 R.I. 87, 49 Atl. 489; *Mass. Nat. Bank v. Shine*, 163 N.Y. 360, 57 N.E. 611.”

To the same effect in *Primeau v. Granfield*, 193 F. 911, 913 (2 Cir. 1911) this Court said as to an unclean hands issue

“... The court must consider it not because it is a matter of defense to the defendant but because it is against public policy to hear the case if the charge be established. The court acts for its own protection rather than for the protection of the defendant. When fraud or illegality is disclosed in a case, public policy requires a court to refuse its aid irrespective of the state of the pleadings and regardless of the fact that with fraud and illegality absent the plaintiff might appear entitled to relief. [Citing cases including *Memphis Keeley*, *supra*].”

citing *Memphis Keeley* as authority, the Seventh Circuit in *Bell & Howell Co. v. Bliss*, 262 F. 131, 135 (1919) held

“The complainant, entering a court of equity, must come with clean hands. Nor is this court, as argued by counsel for appellees, limited, in applying this maxim, to a case where the iniquitous action is one of which the moving party may personally

complain. The rule thus invoked need not be pleaded at all. In fact, it is not a matter of defense primarily. Courts apply it, not to favor a defendant, but because of the interest of the public; courts act *sponte sua*."

*Carmen v. Fox Film Corp.*, 269 F. 928 (2 Cir. 1920) cited by the district judge (A207) is to precisely the same effect. That case specifically notes that

"The maxim that one who comes into equity must come with clean hands expresses rather a principle of inaction than one of action. It means that equity will refuse its aid in any manner to one seeking its active interposition if he has been guilty either of unlawful or inequitable conduct respecting the subject-matter of the litigation." (269 F. at 932).

In line with these principles, courts of equity have repeatedly recognized that the inclusion of deliberate false representations in a verified complaint compel its dismissal. See, *e.g.* *Zearfoss v. Zearfoss*, 164 A.2d 893, 112 N.J. Eq. 530 (1933); *Clark v. Watts*, 77 A.2d 188, 10 N.J. Sup. 243 (1950). Subornation of perjury by a party's attorney is equally recognized as grounds for depriving a plaintiff of the right to proceed if his case is not yet concluded—or if concluded, for vacating any judgment in his favor. See, *e.g.*, *Sutter v. Easterly*, 189 S.W.2d 284, 354 Mo. 282, 162 ALR 437 (1945).<sup>29</sup>

These cases are in line with the general recognition that

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<sup>29</sup> Importantly, Rule 60(b), in placing time limits upon the power of a court to relieve a party from a final judgment based upon fraud, misrepresentation or misconduct of his opponent, is careful to state also "that this rule does not limit the power of a court. . . to set aside a judgment for fraud upon the court." See Moore's Federal Practice, Second Ed. Vol. 7 (1975) Sec. 60.37 [1] at pages 608-621 and Wright and Miller, Federal Practice and Procedure, Vol. 11 (1973) Sec. 2870 at pages 247-257 for discussion of the inherency of this latter power in courts and the basic public policy reasons which compel its untrammelled exercise.

"Although most cases in which the clean hands doctrine has been applied are cases in which the cause of action itself has arisen out of or been the fruit of unconscionable conduct, we do not understand that it is a prerequisite to the application of the doctrine that the cause of action shall have so arisen. It is sufficient to bar relief that plaintiff has been guilty of unconscionable conduct directly related to the cause of action, such as the fabrication of testimony, the subornation of perjury or other like attempt to perpetrate a fraud upon the court or take an unconscionable advantage of his adversary. It is said that to have relief from a court of equity plaintiff must not only come into court with clean hands, but must keep his hands clean. [Citing cases including *Zearfoss*, *supra* in a footnote]." *Mas v. Coca Cola*, 163 F.2d 505, 508 (4 Cir. 1947).

Exemplary of cases applying this general rule in addition to *Zearfoss*, *Clark and Sutter*, *supra* is *The Diversy Corp. v. Charles Pfizer and Co., Inc.*, 255 F.2d 60, 62 (7 Cir. 1958) in which dismissal was premised upon unclean hands consequent from the plaintiff's filing of a false affidavit in support of a motion to waive the normal waiting period for taking depositions. The false representation was that both of two defendants were likely, absent the requested relief, to suppress or destroy evidence. In fact the plaintiff knew that one of the two defendants was friendly and would not so act. In affirming the district court's dismissal of the complaint, the appellate court held

"A court of equity will not entertain the suit of one who by deceit or any unfair means has gained an advantage as plaintiff has here. To aid this plaintiff would make the court an abettor of inequity. *Bein v. Heath*, 1848, 6 How. 228, 47 U.S. 228, 247 . . . *Precision Instrument Mfg. Co. v. Automotive*



Maintenance Machinery Co., 1945, 324 U.S. 806, 814-815, . . . .<sup>30</sup>

The same principle was well expressed in *Root Refining Co. v. Universal Oil Products Co.*, 169 F.2d 514, 534-355 (3 Cir. 1948). In *Root*, a plurality of judgments in earlier litigated cases were vacated and the original suits dismissed because it was revealed that one party had exercised and attempted to exercise undue influence upon one of the judges involved. In so ruling, the Third Circuit held:

"The disposition now to be made of the *Root* cases admits of no doubt. The records of the courts must be purged and the judgments in Universal's favor, both in this court and in the District Court, must be vacated and the suits by Universal must be finally dismissed. *No principle is better settled than the maxim that he who comes into equity must come with clean hands and keep them clean throughout the course of the litigation, and that if he violates this rule, he must be denied all relief whatever may have been the merits of his claim.* *Hazel-Atlas Co. v. Hartford Co.*, 322 U.S. 238, 64 S.Ct. 997, 88 L. Ed. 1250; *Keystone Driller Co. v. General Excavator Co.*, 290 U.S. 240, 54 S.Ct. 146, 78 L.Ed. 293; *Mas v. Coca-Cola Co.*, 4 Cir., 163 F.2d 505; *American*

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<sup>30</sup> In *Diversey*, the falsity in the affidavit lay in the use of the plural "defendants" in lieu of the singular "defendant". The plaintiff's counsel in fact argued that the affidavit was not false by deliberate design but rather contained a mere inadvertent and innocent typographical error—an argument which the Court of Appeals specifically considered and held to be without credibility in the context of the whole of the sentence involved.

In *this* case, Ceramco and its counsel have made no attempt to suggest that there is an explanation or excuse for the perjurious misrepresentations of the sworn complaint which counsel suborned, even though a full opportunity to do so was afforded at the Towell and Ryan depositions and in connection with defendant's motion for summary judgment in the court below. See Fact Section B, *supra*, pages 12 to 17.

Insurance Co. v. Lucas, D.C.W.D.Mo., 38 F.Supp. 896, affirmed as American Insurance Co. v. Scheufler, 8 Cir., 129 F.d 143.

"Consequently there can be no question as to the course to be taken with regard to Universal's suits against Root. In Hazel-Atlas Co. v. Hartford Co., supra, the fraud consisted in the publication of an article commendatory of the patent and purported to be written by a disinterested person, but actually prepared by officials of the Company which owned the patent, and in Mas v. Coca-Cola Company, the plaintiff was denied relief because he had forged certain letters indicating the priority of his invention. *In both cases the courts did not merely exclude the tainted evidence, but denied the patentee all relief. How much more deserving of condemnation is the conduct of the patentee in the instant case which was directed against the integrity of the court itself.*" (Emphasis added).

Root's reliance, *inter alia*, upon Mas, supra, Keystone Driller Co. v. General Excavator Co., 290 U.S. 240 (1933) and Hazel-Atlas Glass Co. v. Hartford Empire Co., 322 U.S. 238 (1944)—all cases in which the conduct amounting to unclean hands occurred *before* suit was brought rather than on the record of the litigation itself—and Diversey's similar reliance on Precision Instrument Mfg. Co. v. Automotive Maintenance Machinery Co., 324 U.S. 806 (1945) which also involves unclean hands arising *before* litigation—exposes as spurious the district court's apparent belief in a distinction between fraudulent pre-litigation conduct related to the subject matter of the action, which it deemed "logically connected" to the case, and fraud practiced during the course of the litigation itself (*e.g.* in pleadings, motions, evidentiary presentations and undue influence efforts) which it deemed unconnected. See A207-208.

Nor does the case law condone the principle implicit in the decision below, to the effect that Ceramco's per-



jurious averments in the sworn complaint may be ignored to the extent that they are not legally necessary to support its ultimate claim for relief. This position—the substance of which is frequently urged upon courts by iniquitors and their privies—has found universal rejection, being flatly rejected even in two of the cases actually cited by the district court.

Specifically in *Keystone Driller Co. v. General Excavator Co.*, *supra*, cited in the opinion below at A207-208, the Supreme Court affirmed the dismissal of four complaints involving claims for infringement of five patents because of “unclean hands” based on conduct that specifically and directly involved only *one* of the patents. It found that the plaintiff had attempted unsuccessfully to obtain preliminary injunctions “based upon the complaints, supporting affidavits, and the pleadings, opinion and decree in the Byers case” (290 U.S. at 242). The record showed that the Byers decree had earlier been obtained as to *only one* of the patents, based on deliberate suppression of material evidence, *inter alia*, through the mechanism of a false affidavit. Plaintiff specifically urged that the dismissal should be restricted to the one patent infected with the misconduct (290 U.S. at 244) but the Supreme Court, noting that all five patents were joined in each of the four complaints, held that the plaintiff “did not come with clean hands in respect of any cause of action in these cases” (290 U.S. at 247).

Similarly in *Precision*, *supra*, cited at A207 by the district court, the Supreme Court approved the dismissal of two suits involving three patents because of the plaintiff’s suppression from the Patent Office and the district attorney of evidence demonstrating that a predecessor owner of *one* of the patents had committed perjury before the Patent Office with respect to that patent alone.

In *Gaudiosi v. Mellon*, 269 F.2d 877, 882 (3 Cir. 1959) a stockholders' derivative suit arising from a corporate proxy contest, it was argued that only one of three plaintiff stockholders had participated in the conduct found to constitute unclean hands and that accordingly the remaining two plaintiffs should be permitted to maintain the suit. The court held

"There remains for disposition Phillips' contention that 'the maxim of 'unclean hands' does not dispose of the rights of others', and that 'neither plaintiffs Gaudiosi or Schwartz participated in these acts of Phillips, thus the defense is totally inapplicable to them, as well as to the 23,000, more or less, stockholders upon whose behalf all three plaintiff sued.'"

"The contention is utterly without merit. It ignores the earlier cited principle that courts are concerned primarily with their own integrity in the application of the clean hands maxim. Courts in such situations act for their own protection and not as a matter of 'defense' to the defendant. Public policy not only makes it obligatory for courts to deny a plaintiff relief once his 'unclean hands' are established but to refuse to even hear a case under such circumstances. Thus it has been held that even in a stockholders' derivative action 'unclean hands' on the part of a plaintiff will require dismissal of the action.

"Apart from the foregoing, to subscribe to this last contention would require us to ignore the fact that plaintiffs' two actions (apart from the derivative claim in Count IV) were specifically instituted to further Phillips' candidacy for director. The startling result would be to permit Phillips to eat his apple with 'unclean hands'. Justice may be blind but it isn't 'dumb'." <sup>31</sup>

<sup>31</sup> *Gaudiosi* is cited in *Coca-Cola Co. v. Howard Johnson Co.*, 386 F.Supp. 330 (N.D. Ga. 1974) relied on by the court below at 208. In context, *Coca-Cola* counsels dismissal of complaints in situations akin to that presented here.

In *Gaudiosi* it was also contended by the plaintiffs that since defendants were "not injured" by the inequitable conduct it should be excused. The Third Circuit pronounced the "injury" point "irrelevant to the issue", citing, quoting and adopting as its own a paragraph from the dissenting opinion of Judge Learned Hand in *Art Metal Works v. Abraham & Straus*, 70 F.2d 641, 646 (2 Cir. 1934), to wit:

"The doctrine [of unclean hands] is confessedly derived from the unwillingness of a court, originally and still nominally one of conscience, to give its peculiar relief to a suitor who in the very controversy has so conducted himself as to shock the moral sensibilities of the judge. *It has nothing to do with the rights or liabilities of the parties; indeed the defendant who invokes it need not be damaged, and the court may even raise it sua sponte.* \* \* \*"<sup>32</sup>

Finally, even if it were permissible, in derogation of *General Excavator*, *Precision* and *Gaudiosi* to excise from a plaintiff's complaint any fraudulent, legally immaterial portions in an effort to save his cause of action, there would be no basis for it here. The district court was also *wrong* in holding that the presence or absence of proof of actual confusion among purchasers is irrelevant in trademark cases where the ultimate test is likelihood of confusion. The very authorities which it cited to support the conclusion are careful to emphasize that evidence of whether or not there has been actual confusion is *always* both relevant and material in the application of the likelihood of confusion test, whether under 15 U.S.C. 1125(a) or in other types of trademark cases.

<sup>32</sup> For these same reasons, Cerameco's conduct in this case cannot be excused simply by virtue of the ultimate failure of its scheme to induce entry of an immediate preliminary injunction. Were it otherwise, the impetus to suborn and commit perjury would be strengthened at the behest of the courts.



Thus in *Anti-Defamation League v. National Mexican Am. Anti-Defamation Committee, Inc.*, 510 F.2d 1246, 1247 (D.C. Cir. 1975) cited in the opinion below at A207 the court emphasized that "Eleven instances which we think could reasonably be found to be actual confusion were placed in evidence". Similarly in *Safeway Stores, Inc. v. Safeway Properties, Inc.*, 307 F.2d 495, 498-499 (2 Cir. 1962), also cited below (A207) this Court noted that "The district court based its order granting the preliminary injunction on a finding that confusion did exist in the real estate field. . . ." and later stated "The district court found confusion to be present in the minds of some people. From this fact it was reasonable to conclude that confusion would occur and probably would increase."

In *George Washington Mint, Inc. v. Washington Mint, Inc.*, 349 F.Supp. 255, 262 (S.D.N.Y. 1972), another case cited in the opinion below (A207), there is an affirmative recognition that proof of actual confusion is relevant and material, albeit unnecessary, on the issue of likelihood of confusion, the court stating further that "While there has been no proof of actual confusion yet, the very reading of the two trademarks makes it obvious that there is a strong likelihood of confusion (at least in commemorative silver plates) and proof of actual confusion is not necessary . . . [citing case] where the products are the same and the class of customers relatively the same."

On the face of these, its own cited authorities, the district court's implicit holding of legal immateriality makes no sense at all. Clearly at least Ceramco's counsel were aware that proof of actual confusion, perhaps the most persuasive form of evidence that may be adduced to show likelihood of confusion, is *always material* on the issue of likelihood of confusion, and hence included in the verified complaint a false representation that actual con-

fusion *had* occurred, in an effort to justify entry of an *ex parte* order to show cause (A216) and an immediate preliminary injunction (A217). The fact that the preliminary injunction was never entered, no preliminary injunction hearing having ever been held in the case, in no way diminishes the consequences of the deliberate effort to gain an unfair advantage over defendant through practicing a fraud upon it *and* the court.

## II. This Court Has Jurisdiction of this Appeal

Directly applicable here is the holding that "This decision appears to fall in that small class which finally determine claims of right separable from, and collateral to, rights asserted in the action, too important to be denied review and too independent of the cause itself to require that appellate consideration be deferred until the whole case is adjudicated" *Cohen v. Beneficial Industrial Loan Corp.*, 337 U.S. 541, 546 (1949).

Here the claimed right to dismissal of the complaint as constituting a fraud on the court is primarily that of the public in insuring maintenance of the integrity of the federal district courts and preserving them against becoming abettors of inequity. It is only incidentally a right of defendant Lee. See Section I, *supra*. This right is separable from the rights asserted in the action; indeed, it takes precedence over such rights to compel dismissal of the complaint regardless of the merit of the plaintiff's cause. Having already been considered on the basis of undisputed facts and having been denied below as a matter of law based on a distortion of the apposite cases, this right will not be adjudicated or entertained in any trial on the merits.

As noted by this Court in *Martina Theatre Corp. v. Schine Chain Theatres, Inc.*, 278 F.2d 798, 801 (2 Cir. 1960) the public interest in protecting the courts from fraud practiced against them is so strong that "we

would suppose that anyone, whether his hands were clean or dirty" could raise the issue. This public interest permits fraud on the court to be raised even by a non-party to the suit as in *United States v. International Tel. & Tel. Corp.*, 349 F.Supp 22 (D.Conn. 1972). It has been said that "a decision produced by fraud on the court is not in essence a decision at all and never becomes final", *Kenner v. Commissioner of Internal Revenue*, 387 F.2d 689, 691 (7 Cir. 1968). In *Root Refining, supra*, the Third Circuit Court of Appeals deemed it appropriate to *itself* supervise collection of evidence on, and entertain *de novo*, the issue of fraud on the court because of the strong public interest involved.

Given the manifest preeminence of the public interest in eradicating any type of fraud against the courts, it would be a mockery of the judicial process to construe 28 U.S.C. 1291's concept of finality of judgments so as to require a trial on the merits in this case before this Court could determine whether the complaint should be dismissed because of the fraud practiced against the court below.

In addition, as noted in the December 12, 1975 decision of this Court in *Lefrak v. Arabian American Oil Co.*, Nos. 75-7234, 75-7235 and 75-7236

"In *Silver Chrysler Plymouth, Inc. v. Chrysler Motors Corp.*, (2d Cir. 1974) this court en banc overruled prior circuit precedents and held that an order of the district court refusing to disqualify an attorney for unprofessional conduct was directly appealable to this court on the authority of *Cohen v. Beneficial Industrial Loan Corp.* . . . The theory underlying the decision was that the issue involved a final disposition of a claimed right, not requiring consideration of the merits of the cause of action, and 'if unresolved, might well taint a trial,' thus needlessly expending judicial and attorney trial time. . . ." (Slip op. at 1042)



In *this* case, if the issue of plaintiff's right to maintain the action in face of its unclean hands including the fraud practiced upon the district court is left unresolved at this stage, the specter of this issue will taint and case a pall over the whole trial on the merits. Pointedly, plaintiff's perjury and its counsel's subornation thereof are relevant and material to plaintiff's credibility on the merits.<sup>33</sup> Hence defendant Lee would have no choice but to insist on the right to present the relevant facts to the jury, while plaintiff predictably would argue that both the perjury and its subornation have been held legally immaterial by the district judge. Plaintiff might well thereby succeed in obtaining unfair advantage on the merits, either by suppressing the evidence of its own lack of credibility from the jury or by inducing a perverted concept of credibility in the jurors' minds.

Either way, the public would be the loser because the trial would be a travesty, with both judge and jury cast in the roles of abetting Ceramco's fraud on the court.

The appealability of the January 6, 1976 order below under the *Cohen* doctrine is further supported by the line of cases which hold that once an appellate court takes jurisdiction of an interim order, it may "if insuperable objection to maintaining the bill clearly appears" *Meccano v. Wanamaker*, 253 U.S. 136, 141 (1920), dismiss and terminate the litigation. See in this regard *CES Publishing Corp. v. St. Regis Publications, Inc.*, Nos. 75-7269 and 75-7276, decided December 31, 1975 by this Court, especially the discussion and citations at slip op. 1396-1397. While the prior case law specifically relates to the power of appellate courts to so proceed in appeals brought under 28 U.S.C. 1292

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<sup>33</sup> Plaintiff has indicated in papers served on or about February 19, 1976 "that it has present plans to call H. Gordon Pelton as a witness at the trial", thus directly raising the issue of both his credibility and that of plaintiff Ceramco, of which he is president.

(a) and predecessor statutes from decisions granting or denying preliminary injunctions, the same principle is obviously applicable to appeals entertained under the *Cohen* doctrine.

The very existence of the principle further suggests that the *Cohen* doctrine governs here and militates in favor of deciding the issue presented and dismissing the complaint, thereby saving judicial and jury time and avoiding any possibility of appearing to condone the misconduct in issue.

Finally, since the precedents discussed in Section I, *supra*, demonstrate the district court lacks authority to proceed further, because to do so would be to condone plaintiff's misconduct, this Court has power under 28 U.S.C. 1651 to control the further proceedings below by correcting the present manifest error. This may be done in the exercise of supervisory jurisdiction, see e.g., *La Buy v. Howes Leather Co.*, 352 U.S. 249 (1957); *Schlagenhauf v. Holder*, 379 U.S. 104 (1964); *IBM Corp. v. Edelstein*, 526 F.2d 37 (2 Cir. 1975). It may also be effected in the exercise of traditional mandamus power "to confine an inferior court to a lawful exercise of its prescribed jurisdiction", *Roche v. Evaporated Milk Assn.*, 319 U.S. 21, 26 (1943)<sup>34</sup> since the district court has no power to lend aid to one who has committed fraud upon it.

Accordingly, it is requested that this appeal be treated as a petition for mandamus in the event the Court elects not to proceed under *Cohen*. Cf. *International Products Corp. v. Koons*, 325 F.2d 403, 407 (2 Cir. 1963). In any event, defendant-appellant Lee asks that the single issue presented be resolved forthwith.

<sup>34</sup> See also *Ex parte Peru*, 318 U.S. 578 (1943); *Will v. United States*, 389 U.S. 90 (1967); *United States v. Weinstein*, 452 F.2d 704, 708-713 (2 Cir. 1971).

**CONCLUSION**

The perjured complaint suborned by plaintiffs' counsel should be dismissed, with costs and attorneys' fees to defendant.

Respectfully submitted,

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IN THE UNITED STATES COURT OF APPEALS  
FOR THE SECOND CIRCUIT

LEE PHARMACEUTICALS,                     )  
  )  
Defendant-Appellant,                     )  
  )  
v.   )  
  )  
CERAMCO, INC.,                             )  
  )  
Plaintiff-Appellee.                     )

Appeal No. 76-7046

AFFIDAVIT OF SERVICE

William D. Breneman, being duly sworn, deposes and states that he has on this 4th day of March, 1976, served upon counsel for Plaintiff-Appellee, Rogers & Wells, copies of the Brief for Appellant and Appendix by hand-delivering copies thereof to the office of said counsel at 200 Park Avenue, New York, New York 10017.

William D. Breneman  
William D. Breneman

State of New York    )  
                              ) ss.:  
County of New York )

Sworn to and subscribed before me this 4<sup>TH</sup> day of March, 1976.

Carmen E. Casiano  
Notary Public

CARMEN E. CASIANO  
NOTARY PUBLIC, State of New York  
No. 24 564 3490  
Qualified in Kings County  
Commission Expires March 30, 1976